



U.S. Foreign Aid to the Palestinians

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Summary

U.S. aid to the Palestinians has fluctuated considerably over the past three years, largely due to Hamas's changing role within the Palestinian Authority (PA). After Hamas led the PA government for over a year, its forcible takeover of the Gaza Strip in June 2007 led to the creation of a non-Hamas government in the West Bank—resulting in different models of governance for the two Palestinian territories. Since then, the U.S. has dramatically boosted aid levels to bolster the PA and President Mahmoud Abbas vis-à-vis Hamas. In FY2008, Congress appropriated a total of \$414.5 million in bilateral assistance to the Palestinians, the largest single year appropriation ever for the Palestinians. Because of congressional concerns that, among other things, U.S. funds might be diverted to Palestinian terrorist groups, much of this assistance is subject to legislative restrictions. For FY2009, an additional \$200 million have already been appropriated for the Palestinians (with another \$100 million requested by the Bush Administration). Experts advise that PA stability hinges on, now more than ever, improved security, economic development, Israeli cooperation, and the continuation of high levels of foreign assistance. U.S. contributions were made to assist emergency humanitarian efforts in the Gaza Strip during the 2008-2009 Israel-Hamas conflict, and U.S. policymakers have also spoken of possible U.S. participation in international efforts to help with the post-conflict reconstruction of Gaza—subject to finding an acceptable approach vis-à-vis Hamas. This report will be updated as events warrant.

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Overview and Recent Developments

The level of U.S. assistance to the Palestinians—among the largest per capita recipients of foreign aid worldwide¹—has fluctuated considerably over the past three years, mainly due to the on-again, off-again role of Hamas within the Palestinian Authority (PA). Hamas is designated as a Foreign Terrorist Organization (FTO) by the U.S. State Department. After the 2006 Hamas victory in PA legislative elections, U.S. assistance to the Palestinians was restructured and reduced. The U.S. halted direct foreign aid to the PA but continued providing humanitarian and project assistance to the Palestinian people through international and non-governmental organizations (NGOs). The ban on direct assistance continued during the brief tenure of a Hamas-led unity government (February to June 2007). During that time, U.S. policymakers demanded unsuccessfully that Hamas renounce, among other things, violence and its commitment to the destruction of the state of Israel.

Subsequent events, however, altered the situation dramatically. In June 2007, Hamas forcibly took control of the Gaza Strip. PA President Mahmoud Abbas (head of the Fatah party), calling the move a “coup,” dissolved the unity government and tasked technocrat Salam Fayyad to serve as prime minister and organize a new PA “caretaker” government in the West Bank. Within days, the United States lifted its economic and political embargo on the PA.

Since then, the Bush Administration and Congress have boosted U.S. aid levels in hopes of fostering an economic and security climate conducive to Palestinian statehood. The revival of Israeli-Palestinian negotiations over a final-status agreement in conjunction with the Annapolis Conference of November 2007 provided further impetus for U.S. economic support of the institutional and societal building blocks deemed crucial for Palestinian self-governance. The Obama Administration appears poised to advocate a similar approach. Nevertheless, significant legislative conditions, limitations, and restrictions remain attached to certain aid given to Palestinians.²

The 2008-2009 Gaza conflict between Israel and Hamas created conditions that led to the provision of emergency humanitarian assistance to Palestinians in the Gaza Strip. The United States contributed aid both through the U.S. Agency for International Development (USAID) and through international organizations such as the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the International Committee of the Red Cross. For a fuller description of these emergency contributions, please see CRS Report R40101, *Israel and Hamas: Conflict in Gaza (2008-2009)*, coordinated by Jim Zanotti.

International efforts to contribute to the post-conflict reconstruction of Gaza have begun, and U.S. policymakers have expressed interest in participating. Questions remain, however, over how reconstruction assistance given through the PA, UNRWA, or other entities or mechanisms can be effective given that Hamas still controls Gaza. Some analysts recommend informal coordination

¹ See U.N. Development Programme 2007/08 Human Development Report 18: Flows of Aid, Private Capital and Debt at <http://hdrstats.undp.org/indicators/171.html>.

² See the Consolidated Appropriations Act, 2008 (P.L. 110-161), Division J, Title III, Economic Support Fund & Title VI, Secs. 644, 647, 650, 655-657. These conditions include a restriction on aid to Hamas (including Hamas affiliates and any government that includes members of Hamas) or to a Palestinian state unless commitments toward peaceful coexistence with Israel are made and other requirements met by the intended aid recipient.

with Hamas, if not direct cooperation, but others reject this recommendation as one that would possibly strengthen Hamas through *de facto* recognition of it as a legitimate stakeholder in Gaza.

Types of U.S. Aid to the Palestinians

Project Assistance Through USAID

Most aid to the Palestinians is provided by USAID to U.S.-based non-governmental organizations operating in the West Bank and Gaza. Funds are allocated in this program for projects in sectors such as humanitarian assistance, economic development, democratic reform, improving water access and other infrastructure, health care, education, and vocational training. The program is subject to a vetting process and to yearly audits intended to ensure that funds are not diverted to Hamas or other organizations classified as terrorist groups by the U.S. government.³

Direct Assistance to the Palestinian Authority

According to annual foreign operations appropriations laws, congressionally approved funds for the West Bank and Gaza Strip cannot be given directly to the PA unless the President submits a waiver to Congress stating that doing so is in the interest of national security.⁴ Recent instances in which the United States has provided direct assistance to the PA as a result of special presidential action include the following:

- In January 2007, President Bush reprogrammed \$86.362 million in prior-year funding into the International Narcotics Control and Law Enforcement (INCLE) account to support Palestinian civil security forces loyal to President Abbas.⁵ Chairwoman Nita M. Lowey of the House Appropriations Subcommittee for State, Foreign Operations, and Related Programs put a hold on the funds in February 2007, reportedly seeking assurances that they would only be used for non-lethal assistance.⁶ Obligation of the funds for non-lethal purposes eventually began in June 2007, the month the Hamas-led unity government was dissolved and the new Fayyad PA government was formed.⁷

³ The vetting process for the USAID West Bank and Gaza program may be unique among USAID programs in that it requires participating NGOs to divulge detailed personal information of employees with access to funds or control over operations. See Walter Pincus, "Plan for Terror Screening of Aid Groups Cut Drastically," *Washington Post*, August 30, 2007; *Federal Register*, vol. 2, no. 36, pp. 39042-39044.

⁴ See P.L. 110-161, Division J, Limitation on Assistance to the Palestinian Authority, Sec. 650. This law also expressly prohibits using funds transferred to the PA to pay salaries of PA employees in the Gaza Strip.

⁵ See Presidential Determination No. 2007-11. Under Chapter 8 of part I (Section 481) of the 1961 Foreign Assistance Act (as amended): "Notwithstanding any other provision of law, the President is authorized to furnish assistance to any country or international organization, on such terms and conditions as he may determine, for the control of narcotic and psychotropic drugs and other controlled substances, or for other anticrime purposes."

⁶ See "Splits Between U.S. and Europe Over Aid for Palestinians," *International Herald Tribune*, February 22, 2007.

⁷ CRS conversation with U.S. Department of State official, September 16, 2008.

- In June 2007, President Bush issued a waiver to provide an additional \$18 million in direct assistance to the PA to be used for a variety of purposes, including democracy assistance and security assistance.⁸
- In February 2008, President Bush issued a waiver to provide \$150 million in budgetary assistance to the PA to “avert a serious and immediate financial crisis.”⁹ Chairwoman Lowey again declared a hold, requesting greater details about the funds’ allocation.¹⁰ The funds were disbursed to the PA after the State Department delivered a certification (dated March 14, 2008) directly to Chairwoman Lowey stating that the PA had established a single treasury account and a single civil service payroll roster.¹¹
- Another \$150 million in budgetary assistance was provided to the PA in October 2008 via presidential waiver.¹²

Assistance for Palestinian Civil Security Forces

As mentioned above, aid has been given to train, reform, advise, house and provide non-lethal equipment for PA security forces loyal to President Abbas in an effort both to counter militants from organizations such as Hamas, Palestinian Islamic Jihad, and the Al-Aqsa Martyrs’ Brigades, and to establish the rule of law for an expected Palestinian state. This assistance, planned by the Bush Administration to last at least through 2011, has come from the INCLE account—to which a total of \$161,362,000 has been appropriated or reprogrammed since June 2007. Since Hamas gained control of the Gaza Strip, Lt. Gen. Keith Dayton, the U.S. Security Coordinator, has helped with the “gendarmierie-style” training of roughly 400 Presidential Guardsmen and 1,500 National Security Forces troops at the International Police Training Center near Amman, Jordan.¹³ Most reports agree that law and order have improved where these PA forces have been deployed, but uncertainty remains (particularly among some Israeli officials) over the willingness and ability of the forces to incapacitate militants. Some Palestinians and outside observers assert that the effectiveness and credibility of PA operations are undermined by Israeli restrictions—including curfews, checkpoints, no-go zones, and limitations on international arms and equipment transfers—as well as by Israel’s own security operations in the West Bank and its recent military campaign in Gaza.¹⁴

⁸ See Presidential Determination No. 2007-20.

⁹ See Presidential Determination No. 2008-12.

¹⁰ “Appropriator Wants Palestinian Authority Aid on Hold Until Accountability in Place,” *Congressional Quarterly*, March 4, 2008.

¹¹ The certification was required by the 2008 foreign operations bill. See P.L. 110-161, Division J, Title III, Economic Support Fund.

¹² See Presidential Determination No. 2009-02.

¹³ See Adam Entous, “Palestinian Forces Return from U.S.-Funded Training, Reuters, May 28, 2008; “500 Palestinian Security Force Members Head to Jordan for U.S.-Funded Training,” *Reuters*, September 18, 2008.

¹⁴ See International Crisis Group, *Ruling Palestine II: The West Bank Model?* Middle East Report no. 79, July 17, 2008.

U.S. Contributions to UNRWA

The United States is the largest single-state donor to UNRWA, which provides food, shelter, medical care, and education for many of the original refugees from the 1947-1949 Arab-Israeli war and their families—now comprising approximately four million Palestinians in Jordan, Syria, Lebanon, the West Bank, and Gaza.¹⁵ U.S. contributions to UNRWA—separate from U.S. bilateral aid to the West Bank and Gaza—come from the Migration and Refugee Assistance (MRA) account and the Emergency Refugee and Migration Assistance (ERMA) account. According to the State Department’s Bureau of Population, Refugees, and Migration (PRM), U.S. contributions to UNRWA for 2008 total approximately \$185 million.¹⁶ The initial U.S. pledge toward 2009 UNRWA contributions was \$85 million. It is not clear whether the tensions which arose between Israel and UNRWA during the 2008-2009 Gaza conflict (over casualties and damage inflicted by Israel on multiple occasions upon UNRWA staff, Palestinian civilians and/or U.N.-marked property—explained by Israeli officials as accidental or as occurring in response to fire from Palestinian militants at or adjacent to U.N.-marked grounds) will have a significant and/or lasting effect on UNRWA’s future operations in Gaza.¹⁷

Factors in Determining Future Aid

Effectiveness of U.S. Assistance on Security in West Bank and Gaza

Instability in the Palestinian territories is, paradoxically, both a major reason for the recent increase in U.S. assistance and a factor that could lead some to oppose maintaining current aid levels. After Hamas’s takeover of the Gaza Strip and dismissal from the PA in June 2007, the United States made assisting the PA with economic development and civil security—aimed at bolstering the standing of President Abbas and the Fayyad government—a higher priority. Yet, if the PA in Ramallah is unable, at a minimum, to achieve and maintain popular legitimacy and competent control in the West Bank, U.S. reluctance to provide resources and training might increase, given concerns that aid could be used against Israel or Palestinian civilians, either by falling into the hands of Hamas or otherwise. Some observers argue that U.S. assistance does not enhance the legitimacy of Abbas and the PA, but rather detracts from it by leading some Palestinians to conclude that the PA is too beholden to the United States.¹⁸ This debate has intensified and has become more complicated in the wake of the 2008-2009 Gaza conflict, as questions have been raised about how to undertake the task of post-conflict reconstruction with a Hamas “government” in control of Gaza.

¹⁵ See CRS Report RS21668, *United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)*, by Rhoda Margesson.

¹⁶ According to PRM, U.S. contributions in 2008 have constituted approximately 17.8% of the UNRWA General Fund budget and have comprised a major share (up to 25%) of other UNRWA funds benefitting Palestinian refugees in Lebanon, the West Bank, and Gaza. Over the last five years, annual U.S. contributions to UNRWA have averaged approximately \$137 million.

¹⁷ For further information on U.S. contributions to UNRWA for 2009 and on Israel-UNRWA tensions during the Gaza conflict, see CRS Report R40101, *Israel and Hamas: Conflict in Gaza (2008-2009)*, coordinated by Jim Zanotti.

¹⁸ See Sherifa Zuhur, Ali Abunimah, Haim Malka, Shibley Telhami, “Symposium: Hamas and the Two-State Solution: Villain, Victim or Missing Ingredient?” *Middle East Policy*, vol. 15, issue 2, July 1, 2008; Transcript of National Public Radio interview (“All Things Considered”) with Robert Malley, June 16, 2007.

Prospects of Economic Development and International Support

The appointment in June 2007 of Salam Fayyad, a former World Bank and International Monetary Fund official, as PA prime minister raised hopes for Palestinian reform and economic growth that have been realized in part. Fayyad produced a Palestinian Reform and Development Plan for 2008-2010 that helped garner major international donor assistance pledges and investment deals, respectively, at conferences in Paris (December 2007) and in Bethlehem and Nablus (May and November 2008) that Middle East Quartet envoy (and former British prime minister) Tony Blair helped organize. There are reports that a donors conference dedicated to post-conflict reconstruction in Gaza may take place in February or March 2009, possibly in Egypt. International pledges of support, however, have proved insufficient to cover the PA's monthly budgetary expenses, occasionally requiring last-minute efforts by Fayyad and Blair to obtain outside assistance.¹⁹ The ultimate success of Fayyad's plan appears to hinge on two factors: keeping the public sector solvent enough to sustain long-term private sector development, and getting Israeli restrictions loosened or lifted on the movement of goods and people both within and out of the West Bank and Gaza.²⁰

FY2008 and FY2009 Assistance

The United States appropriated a total of \$414.5 million in bilateral assistance to the Palestinians for FY2008:

- \$239.5 million in Economic Support Fund (ESF) assistance,
- \$150 million in direct assistance to the PA, and
- \$25 million in INCLE security assistance.²¹

A "bridge fund" appropriation for FY2009 of \$150 million in ESF assistance for the West Bank and Gaza, along with \$50 million in INCLE security assistance, was made pursuant to the Supplemental Appropriations Act, 2008 (P.L. 110-252). Before the Obama Administration entered office in January 2009, the Bush Administration requested additional ESF assistance of \$75 million, along with \$25 million in INCLE assistance, for FY2009.²²

¹⁹ See Adam Entous and Mohammed Assadi, "Palestinian PM Gets Phone Firm Help to Pay Wages," Reuters, August 8, 2008. See also The World Bank, *Implementing the Palestinian Reform and Development Agenda: Economic Monitoring Report to the Ad Hoc Liaison Committee*, May 2, 2008. Only a small fraction of the \$7.7 billion pledged in Paris (\$1.1 billion) was pledged for budgetary support, about \$535 million short of the PA's targeted needs for 2008. A *Washington Post* article stated that many Arab governments have only fulfilled a small percentage of their pledges to the PA since 2002, and, as a group, have conspicuously decreased donations since Fayyad's government was installed (although some have since made additional donations). See Glenn Kessler, "Arab Aid to Palestinians Often Doesn't Fulfill Pledges," *Washington Post*, July 27, 2008.

²⁰ See The World Bank, op. cit.; International Crisis Group, op. cit. Restrictions on movement have been a key factor in the Palestinian economic downturn since the Second Palestinian *Intifada* (which began in late 2000), and the closure of Gaza crossings following the Hamas takeover in June 2007 has led to a near economic standstill there.

²¹ P.L. 110-161; Supplemental Appropriations Act, 2008 (P.L. 110-252), Title I, Chapter 4, Subchapter A. \$171 million of the \$239 million in ESF (none of which may be reprogrammed for direct transfer to the PA) and \$25 million in INCLE assistance were appropriated by P.L. 110-252. Both amounts will remain available for use until September 30, 2009.

²² The Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (P.L. 110-329) is a continuing resolution authorizing FY2009 funding for all U.S. projects and activities, including aid to the Palestinians, (continued...)

Table I. U.S. Bilateral Assistance to the Palestinians, FY 2004-FY2009

(regular and supplemental appropriations; current year \$ in millions)

| Account | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 | FY2009 Bridge Fund & Request |
|------------------------------|---------------|---------------|----------------|---------------|---------------|-------------------------------------------------|
| ESF | 74.5 | 224.4 | 148.5 | 50.0 | 389.5 | 225.0 |
| P.L. 480 Title II (Food Aid) | - | 6.0 | 4.4 | 19.488 | - | - |
| INCLE | - | - | - | - | 25.0 | 75.0 |
| Transition Aid | - | - | 0.343 | - | - | - |
| Total | 74.5 | 230.4 | 153.243 | 69.488 | 414.5 | 300.0 |

Sources: U.S. Department of State, USAID.

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(...continued)

at the rate and in the manner they were provided for in P.L. 110-161 until the earlier of (1) passage of a superseding law and (2) March 6, 2009.